# IRREVOCABLE LIFE INSURANCE TRUSTS (ILITS)

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Some significant changes regarding estate planning laws are coming at the end of next year. The federal lifetime estate and gift tax exemption will sunset after 2025. The exemption is currently sitting at $13.61 million per person and will drop back to the prior Tax Cuts and Jobs Act level of $5 million, adjusted for inflation. To put things in perspective, if someone passes away in 2024 and their estate is worth $13.61 million or less, they don't need to worry about paying federal estate taxes. The exemption being reduced by nearly half after 2025 may impose serious estate tax consequences for higher-worth individuals.

Assets solely owned will be included in your gross estate upon passing. Jointly owned assets will be included in your gross estate, depending on the exact ownership titling. Life insurance is one of the most significant assets that may be included in your gross estate. If you are the owner and insured of a policy, this may add upwards of $1 million to the fair market value of your gross estate. Estate tax rates cap out at 40%, but with rates this high, some individuals may incur a big tax bill if they don't do the proper planning.

A strategy that will be very helpful in minimizing estate taxes is utilizing an Irrevocable Life Insurance Trust (ILIT). The ILIT essentially owns the policy instead of the insured, and the death benefits are not part of the insured's gross estate and are not subject to state and federal estate taxation. This can also provide liquidity to help pay estate taxes, debts, and expenses if needed. ILIT's also have a level of asset protection for the beneficiaries. This is because ILITs are owned by the trust. Courts would have a hard time linking the assets to the beneficiary and, in turn, making creditor access difficult.
Having proceeds from a life insurance policy owned by an ILIT also helps trust beneficiaries who are receiving government benefits, such as Social Security Disability Income or Medicaid. A trustee will be appointed by the grantor to manage the trust assets for the beneficiary's best interest. The trustee will control how distributions from the trust are used so there is no interference with the beneficiary's eligibility for government benefits.

A very important rule the IRS has in place regarding ILITs is a three-year lookback rule. If you transfer a life insurance policy to an ILIT and pass away within three years, the proceeds may be included in your taxable estate. You essentially need to outlive the asset transfer for three years to receive the estate tax benefits. This is important to remember because time-intensive strategies, such as creating an ILIT, need to be planned out in advance.

The main purpose of an ILIT is to decrease the value of an individual's gross estate so estate taxes are reduced on the death benefits passed to the beneficiary. This strategy is most suitable for high-net-worth individuals with substantial assets and significant insurance needs. ILITs require careful planning and plenty of time to do so because of the three-year look-back rule. Although there are no exemption reductions until after 2025, it's important to consider how this change may affect your family and an appropriate strategy that fits your financial needs best.